

Audit report on the financial statements of
OOO UBS Bank
for 2015

April 2016

**Audit report
on the financial statements of
OOO UBS Bank**

Contents	Page
Independent auditor's report	3
Annexes	
Statement of financial position	7
Statement of profit or loss and other comprehensive income	8
Statement of changes in net assets attributable to the participants	9
Statement of cash flows	10
Notes to financial statements	
1. Principal activities	11
2. Basis of preparation	11
3. Summary of accounting policies	12
4. Significant accounting judgments and estimates	23
5. Cash and cash equivalents	24
6. Amounts due from clearing institutions	25
7. Property and equipment and intangible assets	25
8. Taxation	25
9. Other assets and liabilities	28
10. Amounts due to credit institutions	28
11. Amounts due to customers	28
12. Net assets attributable to the participants	29
13. Commitments and contingencies	29
14. Net fee and commission income/expense	30
15. Personnel and other operating expenses	31
16. Risk management	31
17. Fair value of financial instruments	41
18. Related party transactions	42
19. Capital adequacy	44
20. Events after the reporting period	45

Independent auditor's report

To the Participants and the Board of Directors
of OOO UBS Bank

Report on the financial statements

We have audited the accompanying financial statements of OOO UBS Bank (the "Bank"), which consist of the statement of financial position as of 31 December 2015, and the statement of profit or loss and other comprehensive income, of changes in net assets attributable to the participants and of cash flows for 2015, and the comments containing a brief overview of the principal provisions of the accounting policy and other explanatory information.

Audited entity's responsibility for the financial statements

Management of OOO UBS Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fair presentation of these financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of OOO UBS Bank as at 31 December 2015 and its financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.

Report on the results of the work in accordance with the requirements of Article 42 of Federal Law No. 395-1 Concerning Banks and Banking Activity of 2 December 1990

Management of OOO UBS Bank is responsible for the Bank's compliance with the obligatory ratios established by the Central Bank of the Russian Federation (hereinafter – the Bank of Russia) and for the conformity of the Bank's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of Federal Law No. 395-1 Concerning Banks and Banking Activity of 2 December 1990 (hereinafter, the "Federal Law") during the audit of the Bank's financial statements for 2015 we determined:

- 1) Whether the Bank complies as at 1 January 2016 with the obligatory ratios established by the Bank of Russia;
- 2) Whether the Bank's internal control and organization of the risk management systems conform to the requirements set forth by the Bank of Russia for such systems in respect of the following:
 - subordination of risk management departments;
 - existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; existence of a reporting system at the Bank pertaining to its significant risks and capital;
 - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
 - oversight performed by the Board of Directors and executive management bodies of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included the procedures selected on the basis of our judgment, such as inquiries, analysis, review of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and recalculation, comparison and reconciliation of numerical values and other information.

The results of our work are provided below.

Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of obligatory ratios of the Bank as of 1 January 2016 were within the limits established by the Bank of Russia.

We did not perform any procedures in respect of the Bank's accounting data, except for the procedures we considered necessary for expressing our opinion on the fair presentation of the Bank's financial statements.

Conformity of the Bank's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2015, the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2015 that establish the methodologies for detecting and managing market and operational risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2015, the Bank has a reporting system pertaining to market and operational risks that are significant to the Bank and pertaining to its capital.
- ▶ We found that the periodicity and consistency of reports prepared by the Bank's risk management departments and internal audit division during 2015 with regard to the management of the Bank's market and operational risks complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of the Bank's relevant risk management methodologies.

- ▶ We found that, as at 31 December 2015, the authority of the Board of Directors and executive management bodies of the Bank included control over the Bank's compliance with internally established risk limits and capital adequacy requirements. For the purposes of control over the effectiveness and consistency of the risk management procedures applied by the Bank during 2015, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purposes of determining the conformity of certain elements of the Bank's internal control and organization of risk management systems, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

T.L. Kozlova
Director
Ernst & Young LLC

26 April 2016

Details of the audited entity

Name: OOO UBS Bank
Record made in the State Register of Legal Entities on 9 March 2006; Main State Registration Number 1067711001863.
Address: 115054, Russia, Moscow, Paveletskaya square, 2, building 2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 05 December 2002; Main State Registration Number 1027739707203.
Address: 115035, Russia, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of the Self-regulated Organization of Auditors "Russian Audit Chamber" (the Association) ("SRO APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Statement of financial position

As of 31 December 2015

(RUB thousand)

	<i>Note</i>	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	5	4,413,270	3,992,972
Mandatory reserves with the Central Bank of the Russian Federation		113,016	77,049
Amounts due from clearing institutions	6	1,878,294	304,217
Loans to customers		2,384	-
Operations with derivative financial instruments		585	-
Property and equipment and intangible assets	7	96,781	146,798
Current income tax assets	8	90,507	90,507
Other assets	9	453,124	222,678
Total assets		7,047,961	4,834,221
Liabilities			
Amounts due to credit institutions	10	804,679	24,360
Operations with derivative financial instruments		694	-
Amounts due to customers	11	1,877,579	690,070
Other liabilities	9	787,789	769,023
Total liabilities		3,470,741	1,483,453
Net assets attributable to the participants			
Share capital	12	3,450,000	3,450,000
Additional paid-in capital		1,742,018	1,742,018
Accumulated loss		(1,614,798)	(1,841,250)
Total net assets attributable to the participants		3,577,220	3,350,768
Total liabilities		7,047,961	4,834,221

Signed and authorized for release on behalf of the Executive Board of the Bank

Chairman of the Executive Board E.B. Titova

Chief Accountant O.N. Rubashko

26 April 2016

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

Translation from the original in the Russian language

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2015

(RUB thousand)

	<i>Note</i>	<i>2015</i>	<i>2014</i>
Interest income			
Cash and cash equivalents		7	940
Amounts due from credit institutions		418,271	267,551
		418,278	268,491
Interest expense			
Amounts due to credit institutions		(870)	(485)
		(870)	(485)
Loan loss provision		(340)	
Net interest income		417,068	268,006
Net fee and commission income	14	221,586	104,629
Net (losses)/gains from foreign currencies:			
- dealing		50,345	56,231
- translation differences		(47,113)	(44,618)
Income from consulting services and other income		2,239,061	731,225
Non-interest income		2,463,879	847,467
Personnel expenses	15	(1,991,653)	(1,387,594)
Depreciation and amortization	7	(44,430)	(38 518)
Other operating expenses	15	(617,663)	(407,416)
Gain on sale of property and equipment		(749)	-
Non-interest expense		(2,654,495)	(1,833,528)
Profit/(loss) before income tax		226,452	(718,055)
Income tax expense	8	-	-
Profit/(loss) for the reporting year		226,452	(718,055)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		226,452	(718,055)

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

Translation from the original in the Russian language

Statement of changes in net assets attributable to the participants**for the year ended 31 December 2015***(RUB thousand)*

	<i>Note</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Accumulated loss</i>	<i>Net assets attributable to the participants</i>
31 December 2013		3,450,000	1,404,510	(1,123,195)	3,731,315
Loss for the year		-	-	(718,055)	(718,055)
Other comprehensive income for the year		-	-	-	-
Total comprehensive loss for the year		-	-	(718,055)	(718,055)
Pecuniary aid	12	-	337,508	-	337,508
31 December 2014		3,450,000	1,742,018	(1,841,250)	3,350,768
Income for the year		-	-	226,452	226,452
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	226,452	226,452
31 December 2015		3,450,000	1,742,018	(1,614,798)	3,577,220

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

Translation from the original in the Russian language

Statement of cash flows
for the year ended 31 December 2015

(RUB thousand)

	<i>Note</i>	2015	2014
Cash flows from operating activities			
Interest received		416,494	268,411
Interest paid		(870)	(485)
Fees and commissions received		223,348	109,519
Fees and commissions paid		(1,762)	(4,890)
Gains less losses from trading securities		-	-
Realized gains less losses from dealing in foreign currencies		50,454	52,533
Other income received		2,021,854	731,225
Personnel expenses paid		(1,981,829)	(976,496)
Other operating expenses paid		(655,669)	(400,355)
Cash flows used in operating activities before changes in operating assets and liabilities		72,020	(220,538)
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		-	-
Amounts due from clearing institutions and mandatory reserves with the Central Bank of the Russian Federation		(1,248,440)	(270,812)
Loans to customers		(600)	450,160
Other assets		15,574	(45,423)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		657,668	(1,434,629)
Amounts due to customers		872,998	282,231
Other liabilities		82,261	44,906
Net cash flows from operating activities before income tax		451,481	(1,194,105)
Income tax paid		-	-
Net cash receipts/(disbursements) in operating activities		451,481	(1,194,105)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(27,432)	(86,831)
Proceeds from sale of property and equipment		-	-
Net cash used in investing activities		(27,432)	(86,831)
Cash flows from financing activities			
Pecuniary aid from the participant	12	-	337,508
Net cash from financing activities		-	337,508
Effect of exchange rates changes on cash and cash equivalents		(3,751)	190,100
Net increase/(decrease) in cash and cash equivalents		420,298	(753,328)
Cash and cash equivalents, beginning of the reporting year		3,992,972	4,746,300
Cash and cash equivalents, end of the reporting year	5	4,413,270	3,992,972

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

Translation from the original in the Russian language

(In RUB thousand, unless otherwise specified)

1. Principal activities

OOO UBS Bank (hereinafter, the "Bank") was established on 22 July 2005 as a Limited Liability Company under the laws of the Russian Federation.

The Bank operates under banking license No. 3463 issued by the Central Bank of Russia ("CBR") on 6 June 2006.

The Bank holds license No. 3463 issued by the Bank of Russia on 4 August 2010 for accepting public deposits denominated in Russian rubles and foreign currency.

The Bank also possesses licenses of a professional participant of the securities market issued by the Federal Service for the Securities Market:

- ▶ for custody services No. 177-12414-000100 dated 30 July 2009 – unlimited;
- ▶ for brokerage services No. 177-12405-100000 dated 30 July 2009 – unlimited;
- ▶ for dealing services No. 177-12408-010000 dated 30 July 2009 – unlimited.

Since August 2010, the Bank has been a member of the obligatory individual deposit insurance system applied to individual deposits with Russian banks and is included in the register of the banks participating in this system under registration number 982.

The Bank's strategic development area for 2015 was further consolidation of efforts aimed at the provision of integrated financial services.

In 2015, the following changes occurred in the Bank's Executive Board: Natalia Dufour, Oleg Rubashko, Sofia Sool left the Executive Board of the Bank. Dmitry Vinogradov and Maxim Gulevich joined the Executive Board.

As of 31 December 2015 and 31 December 2014, the Bank did not have its own credit ratings.

The Bank has no branches and affiliates. As of 31 December 2015, the actual headcount of the Bank was 111 employees (31 December 2014: 113 employees).

The Bank's registered address and principal place of business is 2/2 Paveletskaya Square, Moscow, 115054, Russia.

As of 31 December 2014, UBS AG, the sole participant of the Bank, owned 100% of the Bank's share capital. In 2015, the composition of the Bank participants changed: based on the agreement on purchase and sale of a part of the stake in OOO UBS Bank of 3 November 2015, a part of the stake amounting to 0.01% was sold by the bank UBS AG to the company UBS Group AG.

<i>Participant</i>	2015 %	2014 %
UBS AG	99.99	100.0
UBS Group AG	0.01	
Total	100.0	100.0

UBS AG is the ultimate parent of the Bank, incorporated and operating under the Swiss laws.

The Bank conducts its activities and determines range of transactions, pricing policy and risk assessment techniques in compliance with the parent's requirements.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS.

(In RUB thousand, unless otherwise specified)

2. Basis of preparation (continued)

General (continued)

The financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies below.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

Reconciliation of RAL and IFRS equity (net assets attributable to the participant) and loss for the year

Equity (net assets attributable to the participant) and profit/(loss) for the year are reconciled between RAL and IFRS as follows:

	31 December 2015		31 December 2014	
	<i>Equity (net assets attributable to the participant)</i>	<i>Profit/(loss) for the year</i>	<i>Equity (net assets attributable to the participant)</i>	<i>Loss for the year</i>
Russian Accounting Legislation	4,299,971	268,690	4,031,281	82,293
Bonuses accrued	(682,577)	(13,672)	(668,905)	(412,757)
Future payments to employees	(2,179)	4,680	(6,859)	105
Pecuniary aid	-	-	-	(337,508)
Audit fees accrued	(3,784)	2,058	(5,842)	(2,441)
Recognition of and accounting for property and equipment	(12,334)	(28,085)	15,751	727
Fair value revaluation of securities	-	-	-	-
Fair value revaluation of derivative assets and liabilities	(109)	(109)	-	-
Deferred tax	-	-	-	-
Income tax	-	-	-	-
Other	(21,768)	(7,110)	(14,658)	(48,474)
International Financial Reporting Standards	3,577,220	226,452	3,350,768	(718,055)

3. Summary of accounting policies

Changes in accounting policy

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual reporting periods beginning on 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires a company to account for employee or third parties contributions when reflecting defined benefit plans. Contributions in respect of service must be attributed to the periods of service by reduction of the cost of service. The amendments clarify that if the amount of the contribution is independent of the number of the years of service, contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributing these contributions to periods of service. Such amendments do not impact the Bank because the Bank does not have defined benefit plans envisaging contributions by employees or third parties.

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in "The Basis for Conclusion" that short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial. Such an approach corresponds to the current accounting policy of the Bank, therefore, this amendment does not impact its accounting policy.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Changes in accounting policy (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendments are applied retrospectively and clarify provisions of IAS 16 and IAS 38, which state that an asset revaluation may be based on observable inputs with respect to its gross or net carrying amount. Besides, accumulated depreciation/amortisation is defined as a difference between the gross and the net carrying amount of the asset. In the current period the Bank did not reflect adjustments based on results of revaluation.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity rendering key management personnel services) is a related party and is included into related party disclosure. Besides, an entity that obtains services from a management company is required to disclose the compensation paid to the management entity. This adjustment does not impact the Bank as it does not obtain key management personnel services from other companies.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that exception to IFRS 13 envisaging the portfolio fair value measurement may be applied not only to financial assets and financial liabilities but also to other contracts within the scope of IFRS 9 (or IAS 39, where applicable). The Bank does not apply the exception to IFRS 13 which envisages the portfolio fair value measurement.

Fair Value Measurement

The Bank measures financial instruments, such as trading securities and securities available for sale, derivatives, and such non-financial assets as investment property, at fair value at each reporting date. The information on the fair value of financial instruments measured at amortized cost is disclosed in Note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ in the principal market for the asset or liability; or
- ▶ in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that would be used by market participants when pricing the asset or liability, assuming that market participants act in their best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in the best and most effective way or by selling it to another market participant that would use the asset in the best and most effective way.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Fair Value Measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level inputs that are significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Assets

Initial recognition

According to IAS 39, financial assets are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; financial assets available for sale. During initial recognition of financial assets the Bank assigns to them the relevant category, and later it may reclassify financial assets in certain cases as described below.

The recognition date

All standard purchase and sale transactions with respect to financial assets are reflected on the transaction date. Standard purchase and sale transactions include financial assets purchase or sale transactions in which assets must be delivered within the time provided for by the laws or accepted in the market.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included into the “financial assets at fair value through profit or loss” category. Financial assets are classified as held for trading if they are acquired for sale in the near future. Derivative financial instruments are also classified as held for trading, unless they are effective hedging instruments. Income and expense on financial assets held for trading are reflected in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when these assets are derecognized or impaired, as well as through the amortization process.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Financial assets (continued)

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ the normal course of business;
- ▶ the event of default; and
- ▶ the event of insolvency or bankruptcy of the entity or any of its counterparties.

These conditions are not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding mandatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Mandatory reserves with the Central Bank of the Russian Federation

Mandatory reserves with the Central Bank of the Russian Federation are the deposits with the CBR which may not be withdrawn by the Bank to finance its day-to-day operations. Credit institutions are required to maintain a non-interest earning deposit (as contributions to the mandatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. Those contributions are not included in cash and cash equivalents as such deposit withdrawal is significantly restricted by the statutory legislation.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange markets. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Such instruments include amounts due to the CBR, amounts due to credit institutions and amounts due to customers. After initial recognition, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments during initial recognition

During initial recognition, financial instruments are measured at fair value which is corrected taking into account fees and commissions and expenses directly relating to them, in case of instruments not revalued at fair value through profit or loss.

The best proof of fair value of a financial instrument at initial recognition is usually the transaction price. If the Bank comes to the conclusion that fair value at initial recognition is different from the transaction price:

- ▶ If fair value is confirmed by quotations in the active market for an identical asset or liability (i.e. Level 1 input data) or is based on the measurement methodology which uses exclusively the data from observable markets, the Bank recognizes the difference between fair value at initial recognition and the trade price as income or expense;
- ▶ In all other cases the initial measurement of the financial instrument is corrected for the difference between fair value at initial recognition and the transaction price to be carried to future periods. After initial recognition the Bank recognizes the deferred difference as income or expense exclusively in the event that the input data becomes observable or recognition of the instrument is terminated.

Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, a high probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from other banks

For amounts due from credit institutions carried at amortized cost, the Bank assesses individually whether objective evidence of impairment exists.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and other comprehensive income.

The present value of the estimated future cash flows is discounted at the original effective interest rate of the financial asset. If amounts due from credit institutions have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Bank has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- ▶ the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Current tax is calculated based on the amounts expected to be paid to or recovered from the taxation authorities in respect of the taxable profits or losses for the current and prior periods. Tax expenses, other than income tax, are recorded within operating expenses.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the laws that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes that are applicable to the Bank's activities. These taxes are included in other operating expenses.

Property and equipment and intangible assets

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment recognized when incurred, if the recognition criteria are met.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Property and equipment and intangible assets (continued)

The carrying value of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Office equipment	2-6
Computers and office appliances	3-4
Telecommunication equipment	3-4
Computer software	3-4
Motor vehicles	3-4

The asset residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets include software and licenses.

Intangible assets acquired separately are initially assessed at the actual cost. The actual cost of intangible assets acquired within business merger transactions represents their fair value on the date of purchase.

After initial recognition intangible assets are recorded at the actual cost less accumulated depreciation and impairment losses. Intangible assets have a limited or indefinite useful life. Intangible assets with a limited useful life are depreciated during the useful life, which is 3 to 4 years, and are analyzed for impairment if there are signs of potential impairment of the intangible asset. The terms and procedure of depreciation of intangible assets with an indefinite useful life are analysed, as a minimum, annually at the end of each reporting year.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognized in the statement of financial position but are disclosed when an inflow of economic benefits is probable.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from various services it provides to its customers. Fee and commission income can be divided into the following two categories:

Fee and commission income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a certain period of time are accrued over that period.

Fee and commission income from providing transaction services

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of comprehensive income as net (losses)/gains arising from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of transactions in a foreign currency and the Central Bank exchange rate on the date of the transactions are included in gains less losses from dealing in foreign currencies.

The official CBR exchange rates at 31 December 2015 and 2014 were RUB 72,8827 and RUB 56.2584 to 1 USD, respectively.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards issued but not yet effective

The standards that are issued but not yet effective at the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which includes all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements concerning classification and measurement as well as impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The standard is applied retrospectively but provision of comparative information is not compulsory. Early application of previous versions of IFRS 9 (of 2009, 2010 and 2013) is permitted if the date of their initial application falls within the period before 1 February 2015. The application of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects the requirements of IFRS 9 concerning depreciation to have a material effect on its capital. The Bank will need a more detailed analysis taking into account all reasonable and supportable information, including prospective information, for assessment of the scale of such effect.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model for accounting of revenue arising from contracts with customers. Recognition of the revenue arising from lease contracts falling within the sphere of application IAS 17 *Leases and insurance contract* within the scope of IFRS 4 *Insurance Contracts* as well as revenue arising due to availability of financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of the scope of IFRS 15 and is regulated by the respective standards.

Under IFRS 15 revenue is recognized at an amount of the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 envisage a more structured approach to measuring and recognizing revenue.

The new revenue standard is mandatory for all entities and supersedes all current revenue recognition requirements under IFRS. This standard is applied retrospectively, either in full scope or with use of practical simplifications, with respect to annual reporting periods beginning on or after 1 January 2018, with early application permitted. The Bank [Group] is currently assessing the impact of IFRS 15 and plans to apply it on the effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Joint Arrangements: Accounting for Acquisitions of Interests – Amendments to IFRS 11

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early application permitted. These amendments are not expected to have any impact on the Bank.

Clarification of Acceptable Methods of Depreciation and Amortization – Amendments to IAS 16 and IAS 38

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early application permitted. These amendments are not expected to have any impact on the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments remove the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture as capital contribution. The amendments clarify that gain or loss resulting from the sale or transfer of assets that constitute a business by the investor, as defined in IFRS 3, in favour of its associate or joint venture must be reflected in full scope. The amendments must be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early application permitted.

Amendments to IAS 1 Disclosure Initiative

Amendments to IAS 1 *Presentation of Financial Statements* clarify rather than change materially the existing IAS 1 requirements. The amendments clarify the following:

- ▶ IAS 1 materiality requirements;
- ▶ specific items in the statement(s) of profit or loss and other comprehensive income and in the statement of financial position may be disaggregated;
- ▶ entities may choose the procedure for submission of notes to statements of financial position;
- ▶ share of other comprehensive income from equity accounted associates and joint ventures must be presented in aggregate as single line item and must be split between those items which later will or will not be reclassified to profit or loss.

Besides, the amendments clarify the requirements to presentation of additional subtotals in the statement of financial position and statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods starting on or after 1 January 2016, with early application permitted. These amendments are not expected to have any impact on the Bank.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments regulate the issues which came up during application of the IFRS 10 exception by investment entities. Amendments to IFRS 10 clarify that the exemption to preparing consolidated financial statements is applied to the parent entity which is a subsidiary of an investment entity if this investment entity measures all its subsidiaries at fair value.

Besides, amendments to IFRS 10 clarify that only a subsidiary of an investment entity which is not itself an investment entity and provides auxiliary services to the investment entity is subject to consolidation. All other subsidiaries of an investment entity are measured at fair value. Amendments to IAS 28 allow the investor applying the equity method to keep fair value measurement applied by its associate or joint venture which is an investment entity to its own subsidiaries. Amendments will come into effect for the annual periods starting on or after 1 January 2016 and must be applied retrospectively, with early application permitted. These amendments are not expected to have any impact on the Bank.

Annual IFRS improvements, the period of 2012-2014

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Disposal of assets (or a group of assets) generally occurs through sale or distribution in favour of owners. The amendment to IFRS 5 clarifies that changing from one of these methods to the other is not considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements of IFRS 5. The amendment also clarifies that changing the disposal method does not result in change of the date of classification. The amendment must be applied prospectively to changes in methods of disposal that will occur in annual periods beginning on or after 1 January 2016, with early application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of such an arrangement and the fee in accordance with the guidance for assessment of continuing involvement set out in paragraphs IFRS 7.B30 and IFRS 7.42C in order to determine whether the disclosures are required. The amendment is effective for annual periods beginning on or after 1 January 2016, with early application permitted. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement is done retrospectively. At the same time, an entity is not obliged to make the required disclosures for any period prior to the period in which the entity first applied this amendment.

IFRS 7 Financial Instruments: Disclosures – applicability of the requirements concerning offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended by guidance on offsetting of financial assets and financial liabilities. In the “*Effective Date and Transition*” section IFRS 7 states that “An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.” However, the interim disclosure standard, IAS 34, does not reflect this requirement. As a result, it is not clear whether those disclosures are required in the condensed interim financial report.

(In RUB thousand, unless otherwise specified)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

The amendment removes the phrase “and interim periods within those annual periods”, clarifying that these disclosures are not required in the condensed interim financial report. The amendment is effective for annual periods beginning on or after 1 January 2016 and must be applied retrospectively, with early application permitted.

IAS 19 Employee Benefits – Discount rate: Regional market issue

The amendment to IAS 19 clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level and not at the country level. If there is not a deep market in high quality corporate bonds in the respective currency, government bonds should be used to determine the discount rate. The amendment is effective for annual periods beginning on or after 1 January 2016, with early application permitted.

IAS 34 Interim Financial Reporting – inclusion of information “elsewhere in the interim financial report”

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference to another section of the interim financial statement (e.g., in the management commentary or risk report) in which it is actually presented. The IFRS Board specified that the other information within the interim financial report must be available to users on the same terms and within the same timelines as the interim financial statements. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment comes into effect for annual periods beginning on or after 1 January 2016 and must be applied retrospectively, with early application permitted.

4. Significant accounting judgments and estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities and the present values of assets and liabilities in the following financial year. Estimates and professional judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Bank’s accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recorded in the financial statements:

Taxation

A significant part of the Bank’s business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is subject to varying interpretations, selective and inconsistent application and changes which can occur frequently and at short notice. Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events in the Russian Federation suggest that the tax authorities may be taking an assertive approach in their interpretation and application of various provisions of this legislation and performing tax audits. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and fines may be assessed by the relevant authorities. Tax field audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year in which the tax audit decision was made by the tax authorities. Under certain circumstances, tax reviews may cover longer periods.

(In RUB thousand, unless otherwise specified)

4. Significant accounting judgments and estimates (continued)

Judgments (continued)

The Russian transfer pricing legislation, which came into force on 1 January 2012, allows Russian tax authorities to apply tax base adjustments and assess additional corporate and individual income tax and value added tax in respect of all “controlled” transactions, if the transaction price is different from the range of market prices. The list of “controlled” transactions includes transactions between related parties and certain types of transactions between unrelated parties that are deemed “controlled” transactions. These rules are applied not only to transactions made in 2015, but also to the transactions made in previous tax periods, if corresponding gains and losses were recognized in 2015 (except for certain types of transactions).

In 2015, the Bank determined its tax liabilities arising from “controlled” transactions based on actual transaction prices. Management believes that the Bank fully complies with transfer pricing rules, and prices applied in “controlled” transactions in 2015 are consistent with market prices. The Bank will submit a duly executed notification on “controlled” transactions to the Russian tax authorities within terms specified by the Tax Code of the Russian Federation and prepare respective documentation on transfer pricing with regard to “controlled” transactions.

As of 31 December 2015, management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

Deferred tax asset recognition

A deferred tax asset is recorded only to the extent that the realization of the related tax credit is probable.

Future taxable income and tax credit, which are likely to arise in the future, are determined based on management’s expectations deemed reasonable under the current circumstances. In 2015, the Bank decided not to recognize a deferred tax asset, as the Bank’s management does not have a reliable estimation of future taxable income and the amount of tax credit.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2015	31 December 2014
Cash on hand	597	530
Current accounts with the CBR (other than mandatory reserves)	16,282	1,844
Current accounts with other credit institutions		
- Russian Federation	120	171
- other countries	7,444	3,427
Settlement accounts with trading systems	728,827	-
Time deposits with credit institutions up to 90 days in other countries	3,660,000	3,987,000
Total cash and cash equivalents	4,413,270	3,992,972

Current accounts with the CBR include deposits with the CBR placed to effectuate current settlements and other operations.

As of 31 December 2015, balances on current accounts with banks in other countries comprise balances on current accounts with the parent bank in the amount of RUB 7,444 thousand (2014: RUB 3,427 thousand) (Note 18).

As of 31 December 2015, RUB 3,660,000 thousand (2014: RUB 3,987,000 thousand) was placed as RUB denominated short-term deposits with the parent bank (Note 18).

As of 31 December 2015, settlement accounts in trading systems are represented by balances at currency and stock exchanges amounting to RUB 728,827 thousand (2014: the Bank had no balances at currency and stock exchanges).

(In RUB thousand, unless otherwise specified)

6. Amounts due from clearing institutions

As of 31 December 2015, amounts due from clearing institutions of RUB 1,878,294 thousand (2014: RUB 304,217 thousand) comprise funds placed on accounts with trading systems as amounts due to customers and bidding security.

7. Property and equipment and intangible assets

Movements in property and equipment and intangible assets were as follows:

	<i>Office equipment</i>	<i>Computers and office appliances</i>	<i>Telecommuni- cation equipment</i>	<i>Computer software</i>	<i>Motor vehicles</i>	<i>Total</i>
Original cost						
31 December 2013	17,994	39,270	710	102,953	6,162	167,089
Additions	411	17,641	-	54,087	1,300	73,439
31 December 2014	<u>18,405</u>	<u>56,911</u>	<u>710</u>	<u>157,040</u>	<u>7,462</u>	<u>240,528</u>
Additions	100	18,663	-	8,627	800	28,190
Disposals	(1,378)	-	-	(52,005)	(3,113)	(56,496)
31 December 2015	<u>17,127</u>	<u>75,574</u>	<u>710</u>	<u>113,662</u>	<u>5,149</u>	<u>212,222</u>
31 December 2013	(16,776)	(9,895)	(710)	(21,669)	(6,162)	(55,212)
Depreciation charge	(515)	(9,160)	-	(28,681)	(162)	(38,518)
Disposals	-	-	-	-	-	-
31 December 2014	<u>(17,291)</u>	<u>(19,055)</u>	<u>(710)</u>	<u>(50,350)</u>	<u>(6,324)</u>	<u>(93,730)</u>
Depreciation charge	(450)	(11,401)	-	(32,218)	(361)	(44,430)
Disposals	1,378	-	-	19,038	2,303	22,719
31 December 2015	<u>(16,363)</u>	<u>(30,456)</u>	<u>(710)</u>	<u>(63,530)</u>	<u>(4,382)</u>	<u>(115,441)</u>
Net book value						
31 December 2014	<u>1,114</u>	<u>37,856</u>	<u>-</u>	<u>106,690</u>	<u>1,138</u>	<u>146,798</u>
31 December 2015	<u>764</u>	<u>45,118</u>	<u>-</u>	<u>50,132</u>	<u>767</u>	<u>96,781</u>

In 2014, the Bank recognized an intangible asset representing new software required to improve the efficiency of many units of the Bank, which was developed with the participation of a large Russian company specializing in the development of software for the banking sector, within computer software. In 2015, the total amount of capitalized costs related to the development of this software amounted to RUB 43,378 thousand (2014: RUB 54,087 thousand).

The Bank started to use the previously mentioned software in 2013.

As of 31 December 2015, fully depreciated property and equipment and intangible assets amounted to RUB 40,408 thousand (31 December 2014: RUB 50,956 thousand).

8. Taxation

The income tax expense comprises:

	<u>2015</u>	<u>2014</u>
Current tax expense	-	-
Deferred tax expense – origination and reversal of temporary differences	-	-
Income tax expense	<u>-</u>	<u>-</u>

(In RUB thousand, unless otherwise specified)

8. Taxation (continued)

Russian legal entities must file individual tax declarations. The income tax rate for companies (including banks) was 20% for 2015 and 2014. In 2015 and 2014, the corporate income tax rate applicable to interest (coupon) income on state bonds and mortgage-backed bonds was 15%, while the corporate income tax rate applicable to interest (coupon) income on municipal bonds was 9%. Dividends are taxed at the standard corporate income tax rate of 9%, which can be reduced to 0% subject to certain criteria.

As of 31 December 2015, income tax overpayment amounted to RUB 90,507 thousand (2014: RUB 90,507 thousand).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2015</u>	<u>2014</u>
Profit before tax	226,452	(718,055)
Statutory tax rate	20%	20%
Theoretical (expense)/income tax benefit at the statutory rate	(45,290)	143,611
Adjustments to financial results from securities	-	-
Interest (coupon) income on state securities taxed at different rates	-	-
Non-deductible expenditures	(2,042)	(2,568)
Change in unrecognized deferred tax assets/liabilities	39,603	(141,116)
Current tax expense (adjustment to prior year)	-	-
Other permanent differences	7,729	73
Income tax expense	-	-

(In RUB thousand, unless otherwise specified)

8. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective year comprise:

	31 December 2013	Origination and reversal of temporary differences in the statement of comprehensive income	31 December 2014	Origination and reversal of temporary differences in the statement of comprehensive income	31 December 2015
Tax effect of deductible temporary differences					
Tax loss carried forward	195,499	50,870	246,369	(65,123)	181,246
Accrued employee bonuses	51,230	82,551	133,781	14,004	147,785
Fair value measurement of securities	-	-	-	-	-
Fair value measurement of derivative financial assets	-	-	-	-	-
Property and equipment	-	-	-	6,373	6,373
Other assets	-	-	-	2467	2467
Other temporary differences	16,828	2,084	18,912	(9,876)	9,036
Deferred tax assets	263,557	135,505	399,062	(52,155)	346,907
Unrecognized deferred tax assets	(263,557)	(135,505)	(399,062)	52,155	(346,907)
Deferred tax asset, net	-	-	-	-	-
Tax effect of taxable temporary differences					
Fair value measurement of securities	-	-	-	-	-
Property and equipment	(18,101)	5,549	(12,552)	12,552	-
Fair value measurement of derivative financial assets	-	-	-	-	-
Deferred tax liability	(18,101)	5,549	(12,552)	12,552	-
Unrecognized deferred tax liabilities	18,101	(5,549)	12,552	(12,552)	-
Deferred tax liability, net	-	-	-	-	-

As of 31 December 2015, the Bank's tax losses to be carried forward to future tax periods amount to RUB 907,101 thousand (2014: RUB 1,232,714 thousand). Such tax losses are allowed to be carried forward within a 10-year period from the end of the tax period in which such losses were incurred.

*(In RUB thousand, unless otherwise specified)***9. Other assets and liabilities**

Other assets comprise:

	31 December 2015	31 December 2014
Settlements on information and advisory services	323,267	106,060
Prepayments	65,603	52,162
Guarantee deposit	52,543	39,506
Settlements with suppliers	8,015	18,752
Transactions with derivative financial instruments	393	3,698
Other accrued income	1,292	-
Advances issued	1,100	2,253
Prepaid taxes other than income tax	911	247
Total other assets	453,124	222,678

As of 31 December 2015, cash amounting to RUB 52,543 thousand which represents a collateral transferred to ensure that the Bank will fulfil its obligations under the lease agreement was recorded within guarantee deposit and is subject to refund upon the expiration of the agreement. Lease payments and other amounts due pursuant to the agreement may be withheld from the collateral (2014: RUB 39,506 thousand).

Other liabilities comprise:

	31 December 2015	31 December 2014
Settlements with employees on year-end bonuses, unused vacation and accountable amounts	595,970	596,361
Taxes payable other than income tax	169,388	137,880
Settlements for software development	-	9,745
Audit fees	3,784	5,842
Settlements on other operations	18,647	19,195
Total other liabilities	787,789	769,023

10. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2015	31 December 2014
Term deposits and loans	804,679	24,360
Amounts due to credit institutions	804,679	24,360

As of 31 December 2015, the Bank received an equivalent of RUB 801,710 thousand in US dollars from the parent bank with date of maturity 12 January 2015 (31 December 2014: RUB 22,503 thousand) (Note 18).

11. Amounts due to customers

Amounts due to customers comprise the following client categories:

	31 December 2015	31 December 2014
Corporate customers		
- current/settlement accounts	1,876,069	688,905
Individuals		
- current/settlement accounts	1,510	1,165
Amounts due to customers	1,877,579	690,070

As of 31 December 2015, included in current accounts of corporate customers are amounts due to companies related to the Bank in the amount of RUB 1,876,068 thousand (99.9% of total amounts due to customers) (2014: RUB 688,905 thousand (99.8% of total amounts due to customers) (see Note 18).

(In RUB thousand, unless otherwise specified)

11. Amounts due to customers (continued)

As of 31 December 2015, included in current accounts of individuals with the Bank are balances of RUB 1,510 thousand (2014: RUB 1,165 thousand).

In 2015 (like in 2014), current/settlement accounts of individuals do not comprise amounts in the accounts opened by members of the key management personnel.

12. Net assets attributable to the participants

The Bank was founded as a limited liability company with a sole participant. As of 31 December 2015, the share capital of the Bank amounted to RUB 3,450,000 thousand (2014: RUB 3,450,000 thousand) comprising one share contributed by UBS AG. The latest increase in the share capital in the amount of RUB 2,200,000 thousand was made in November 2011. The funds were contributed by the Bank's sole participant UBS AG that owned 100% of the share capital. In 2015 the composition of the Bank participants changed: based on the agreement on purchase and sale of a part of the stake in OOO UBS Bank of 3 November 2015, a part of the stake amounting to 0.01% was sold by the bank UBS AG to the company UBS Group AG.

<i>Participant</i>	31 December 2015	31 December 2014
UBS AG	3,449,655	3,450,000
UBS Group AG	345	-
Total	3,450,000	3,450,000

All changes in the charter documents were duly registered.

In 2015, the Bank did not receive pecuniary aid from the parent bank (2014: RUB 337,508 thousand. These funds were not registered as increase of the share capital).

In accordance with the Bank's charter, withdrawal of participants from the Bank resulting in the Bank having no members is not permitted.

13. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2015, significant decrease of oil prices, sizeable devaluation of the Russian ruble and sanctions imposed against Russia by certain countries in 2014 continued to impact the Russian economy. Despite the gradual decrease of the key interest rate of the Central Bank during 2015 after its hike in December 2014, the Russian ruble interest rates remained high. These factors taken together resulted in lower capital availability and increase of its cost as well as growth of inflation and uncertainty regarding further economic growth, which may negatively affect the Bank's financial position, results of operations and business prospects. The Bank management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

*(In RUB thousand, unless otherwise specified)***13. Commitments and contingencies (continued)****Commitments and contingencies**

As of 31 December, the Bank's commitments and contingencies comprised:

	Note	31 December 2015	31 December 2014
Credit-related commitments			
Undrawn loan commitments		-	-
Operating lease commitments			
Up to 1 year	16	231,495	107,827
From 1 to 5 years	16	778,470	898,755
More than 5 years	16	-	111,210
		<u>1,009,965</u>	<u>1,117,792</u>
Commitments and contingencies		<u>1,009,965</u>	<u>1,117,792</u>

In 2006, the Bank entered into an office sublease agreement with a related party. The agreement had a term of one year renewable upon mutual consent of the parties. The agreement was renewed for one year in November 2007 and in the subsequent years including November 2013. In 2014, pursuant to the assignment agreement, the Bank was given a lease agreement for office premises. Pursuant to the assignment agreement, the Bank transferred cash as a collateral designated to ensure that the Bank will fulfil its obligations under the lease agreement, this cash is subject to refund upon the expiration of the agreement. Lease payments and other amounts due pursuant to the agreement may be withheld from the collateral.

In the periods ending on 31 December 2015 and 31 December 2014, the Bank recognized lease expenses in the amount of RUB 170,247 thousand and RUB 113,828 thousand, respectively, within other operating expenses in the statement of profit or loss and other comprehensive income.

14. Net fee and commission income/expense

Net fee and commission income/expense comprises:

	2015	2014
Depository	117	1,033
Execution of transaction passports	0	719
Settlement operations	144	189
Securities operations	223,087	107,579
Fee and commission income	<u>223,348</u>	<u>109,520</u>
Foreign currency operations	(378)	(2,290)
Settlement operations	(503)	(1,920)
Depository	(807)	(614)
Other	(74)	(67)
Fee and commission expense	<u>(1,762)</u>	<u>(4,891)</u>
Net fee and commission income/(expense)	<u>221,586</u>	<u>104,629</u>

(In RUB thousand, unless otherwise specified)

15. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	<u>2015</u>	<u>2014</u>
Salaries and bonuses	1,706,384	1,215,154
Social security costs	272,528	158,890
Other	12,741	13,550
Salaries and other benefits	<u>1,991,653</u>	<u>1,387,594</u>
Occupancy and rent	205,938	131,696
Outsourcing	100,930	60,432
Operating taxes	84,428	49,180
Business travel and related expenses	43,639	26,837
Losses on initial recognition on guarantee deposit	-	18,824
Computer software	44,612	14,527
Recruitment	3,157	18,556
Information services	41,449	15,410
Office appliances repair and maintenance	2,873	15,181
Communications	12,957	10,112
Entertainment	11,961	9,137
Audit services	2,918	5,462
Transportation expenses	4,566	4,769
Office supplies	4,692	4,218
Lease, repair, insurance and maintenance of vehicles	7,841	3,923
Translation and interpreting	3,674	2,848
Legal and consultancy	15,530	2,602
Periodicals	1,958	730
Post and courier services	637	433
Penalties	652	399
Charity	43	-
Other	23,208	12,140
Other operating expenses	<u>617,663</u>	<u>407,416</u>

16. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. This process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Board

The Executive Board is responsible for monitoring the overall risk process within the Bank.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)

Introduction (continued)

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk management issues and monitors relevant risk decisions.

Risk controlling

The Risk Controlling Unit has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

The Risk Controlling Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process with respect to compliance with risk management principles, policies and risk limits of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using models which reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from past experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed on the basis of limits established by the Bank. These limits reflect the business strategy and market environment of the Bank. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks early. This information is presented and explained to the Executive Board and heads of business units concerned. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. Reporting of industry risks takes place on a regular basis. Senior management regularly assesses the appropriateness of the allowance for credit losses. The Executive Board receives a risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the Executive Board and all other relevant employees of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)

Introduction (continued)

Excessive risk concentration

Concentrations occur when a number of counterparties are engaged in similar business activities, or their activities in the same geographic region, or have similar economic characteristics, and as a result of changes in economic, political or other conditions have a similar effect on the ability to meet contractual obligations. Concentrations indicate the relative sensitivity of the Bank to changes in conditions which affect a particular industry or geographic region.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on diversification of asset allocation. Identified concentrations of risks are managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a credit rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Bank continuously monitors credit risks and limits on risks set for different counterparties.

The Bank has traditionally been utterly prudent in setting its risk management policy. Credit risk accepted by the Bank in transactions arises primarily from interbank loans and placements on nostro accounts. The Bank takes a conservative position when placing temporarily available funds and chooses the CBR for placements in Russian rubles and UBS AG for placements in foreign currencies as correspondent banks.

When participating in the interbank lending market, the Bank strictly complies with the limits approved by the Credit Committee of the Bank. The Bank may not enter into transactions for which no limits have been set (except for fully prepaid transactions and transactions with UBS AG).

Conversion transactions and foreign currency transactions are conducted mainly at the Moscow Exchange and with UBS AG. Transactions with other counterparties are conducted only if there is a corresponding limit available and strictly within such limit. The Bank does not accept currency risk arising from foreign currencies other than US dollar – all conversion transactions involving other currencies are fully hedged via UBS AG. The Bank limits aggregate currency risk exposure by monitoring sensitivity of change in position to volatility of currency pairs in which assets and liabilities are denominated.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)**Credit risk (continued)**

In the table below funds due from credit institutions with high rating are funds with minimum credit risk, generally having credit rating of an investment grade or close to it (i.e. no lower than BB+). Other borrowers with good financial position and good debt service are included in loans with standard rating (i.e. no lower than B+). Sub-standard rating implies credit quality lower than standard, but loans included in this category are not individually impaired.

	Notes	<i>Neither past due nor impaired</i>			Total 2015
		<i>High rating</i>	<i>Standard rating</i>	<i>Sub-standard rating</i>	
		31 December 2015	31 December 2015	31 December 2015	
Cash and cash equivalents	5	4,412,673	-	-	4,412,673
Mandatory reserves with the Central Bank of the Russian Federation		113,016	-	-	113,016
Amounts due from clearing institutions	6	1,878,294	-	-	1,878,294
Loans to customers	7	1,784	600	-	2,384
Other assets	10	323,660	128,553	-	452,213
Total		6,729,427	129,153	-	6,858,580

	Notes	<i>Neither past due nor impaired</i>			Total 2014
		<i>High rating</i>	<i>Standard rating</i>	<i>Sub-standard rating</i>	
		31 December 2014	31 December 2014	31 December 2014	
Cash and cash equivalents	5	3,992,442	-	-	3,992,442
Mandatory reserves with the Central Bank of the Russian Federation		77,049	-	-	77,049
Amounts due from clearing institutions	6	304,217	-	-	304,217
Loans to customers	7	-	-	-	-
Other assets	10	109,758	112,673	-	222,431
Total		4,483,466	112,673	-	4,596,139

According to its policy, the Bank must carefully and consistently assign risk ratings to counterparties. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics methods, combined with processed market information, to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are determined in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)**Geographical concentration**

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	31 December 2015			Total
	Russia	OECD	Other countries	
Assets				
Cash and cash equivalents	753,270	3,660,000	–	4,413,270
Mandatory reserves with the Central Bank of the Russian Federation	113,016	–	–	113,016
Amounts due from clearing institutions	1,878,294			1,878,294
Loans to customers	600	1,784	–	2,384
Operations with derivative financial instruments	585			585
Other assets	13,146	439,067	–	452,213
	2,758,911	4,100,851	–	6,859,762
Liabilities				
Amounts due to credit institutions	2,969	801,710	–	804,679
Amounts due to customers	12,242	1,849,788	15,549	1,877,579
Operations with derivative financial instruments		694		694
Other liabilities	22,217	514	–	22,731
	37,428	2,652,706	15,549	2,705,683
Net position	2,721,483	1,448,145	(15,549)	4,154,079

	31 December 2014			Total
	Russia	OECD	Other countries	
Assets				
Cash and cash equivalents	2,545	3,990,427	–	3,992,972
Mandatory reserves with the Central Bank of the Russian Federation	77,049	–	–	77,049
Amounts due from clearing institutions	304,217			304,217
Other assets	9,686	212,745	–	222,431
	393,497	4,203,172	–	4,596,669
Liabilities				
Amounts due to credit institutions	1,856	22,504	–	24,360
Amounts due to customers	5,712	660,685	23,673	690,070
Other liabilities	34,822	–	–	34,822
	42,390	683,189	23,673	749,252
Net position	351,107	3,519,983	(23,673)	3,847,417

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

The Bank maintains a portfolio of diverse marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed an additional overdraft limit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (mandatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)**Liquidity risk and funding management (continued)**

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As of 31 December, these ratios were as follows:

	<i>In accordance with the CBR requirements, %</i>	2015 %	2014 %
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	Min. 15	49.2	932.1
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	Min. 50	509.2	805.6
N4 "Long-term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	Max. 120	1.8	1.5

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2015 and 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities as of 31 December 2015	Less than 3 months	Total
Amounts due to credit institutions	804,679	804,679
Amounts due to customers	1,877,579	1,877,579
Cash inflow from derivative transactions	(424,955)	(424,955)
Cash outflow from derivative transactions	424,370	424,370
Other liabilities	22,731	22,731
Total undiscounted financial liabilities	2,704,404	2,704,404

Financial liabilities as of 31 December 2014	Less than 3 months	Total
Amounts due to credit institutions	24,360	24,360
Amounts due to customers	690,070	690,070
Other liabilities	34,822	34,822
Total undiscounted financial liabilities	749,252	749,252

The table below analyzes the contractual expiry by maturity of the Bank's lease commitments (including commitments related to maintenance of the leased premises).

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
31 December 2015	64,680	166,815	778,470		1,009,965
31 December 2014	28,428	79,399	898,755	111,210	1,117,792

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)**Liquidity risk and funding management (continued)**

The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the expected maturity date.

	31 December 2015		
	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>Total</i>
Assets			
Cash and cash equivalents	4,413,270	–	4,413,270
Mandatory reserves with the Central Bank of the Russian Federation	113,016	–	113,016
Amounts due from clearing institutions	1,878,294	–	1,878,294
Loans to customers	2,384	–	2,384
Derivative financial instruments	585	–	585
Other assets	452,213	–	452,213
Total	6,859,762	–	6,859,762
Liabilities			
Amounts due to credit institutions	804,679	–	804,679
Amounts due to customers	1,877,579	–	1,877,579
Derivative financial instruments	694	–	694
Other liabilities	22,731	–	22,731
Total	2,705,683	–	2,705,683
Net position	4,154,079	–	4,154,079
Cumulative gap	4,154,079	4,154,079	
	31 December 2014		
	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>Total</i>
Assets			
Cash and cash equivalents	3,992,972	–	3,992,972
Mandatory reserves with the Central Bank of the Russian Federation	77,049	–	77,049
Amounts due from clearing institutions	304,217	–	304,217
Other assets	222,431	–	222,431
Total	4,596,669	–	4,596,669
Liabilities			
Amounts due to credit institutions	24,360	–	24,360
Amounts due to customers	690,070	–	690,070
Other liabilities	34,822	–	34,822
Total	749,252	–	749,252
Net position	3,847,417	–	3,847,417
Cumulative gap	3,847,417	3,847,417	

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)

Market risk

Market risk is the risk of financial loss which the Bank may suffer due to unfavourable changes in market parameters. The Bank distinguishes two main groups of market parameters which include general and specific factors. General factors of the market risk are the parameters which depend on macroeconomic, geopolitical and other market conditions unrelated to any individual instruments or issuers. The indicators of general market risk factors include the level of interest rates and market indices, foreign exchange rates, prices for energy, metals and commodities and overall credit spread which is the excess of the effective loan interest rate over the interest rate on risk-free securities. Interdependence among the market risk indicators is taken into the account as well. Specific components are factors which cannot be attributed to general changes in market conditions. These components comprise quotes of debt and equity instruments, derivative financial instruments (including imbedded derivatives) linked to these debt and equity instruments.

The Bank discloses details of possible financial loss calculated using the Value-at-Risk (VaR) model. For the purpose of internal control, management also uses the worst scenarios data or stress-testing, risk concentration analysis, monitoring of qualitative and quantitative parameters.

All activities related to assessment and monitoring of the market risk level and control over compliance with the set risk limitations are performed by the Bank's functions independent from front-office functions (commercial units) that enter into transactions involving acceptance of market risk. Such segregation of the risk acceptance and risk assessment powers between the Bank's functions complies with the standards of UBS AG, existing international practice and is designed to eliminate any potential conflict of interests.

Risk assessment

The Bank applies two main methods of assessing market risk – the VaR model and stress-testing. These assessment methods are supplemented by risk concentration analysis and additional controls. Where standard limits do not meet the complex control criteria, the Bank sets limits on the level of risk exposure and for the purposes of regulating the level of specific risks.

Value-at-Risk (VaR) methodology

The Bank applies VaR methodology to assess the market risk positions held and to estimate a potential economic loss based upon a number of parameters and assumptions for various changes in market conditions.

VaR is a statistical method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio under the influence of general and specific risk factors, at a given confidence level and over a specified time horizon.

According to the standards of UBS Group, VaR is estimated with a 10-day horizon and 99% probability (for the purpose of calculation of regulatory capital according to Basel) and with a 1-day horizon and 95% probability (for internal management analysis and reporting). VaR is a hypothetical loss attributable to a portfolio, which may be incurred as a result of changes in market factors during a given time period subject to a certain confidence level (99%). Thus, there is a statistical probability of 1% that the actual loss, which the Bank may theoretically suffer, will exceed the amount derived by applying the VaR model.

VaR models are based on the historical simulation method and assume that market fluctuations in the next 10 days or 1 day will meet the scenario of market fluctuations over the previous 10 days or 1 day, respectively. For the general market risk, the Bank applies historical data for the past 5 years. This period usually corresponds to a market cycle and contains maximum and minimum levels of market indicators. Historical information for the period is applied to an existing securities portfolio. This method is known as a Historical Simulation Method.

To evaluate the adequacy of the calculation model applied, the market risk assessment unit of UBS Group performs back-testing on a regular basis by comparing simulated and actual losses.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)

Market risk (continued)

Although VaR helps to assess the risk, it is necessary to consider disadvantages of this method, such as:

- ▶ Applying past changes in prices to assess future changes does not help to assess the full extent of possible future price fluctuations;
- ▶ Estimation of changes in financial market indicators for a 10-day period assumes that during this period all of the Bank's positions may be closed (or hedged). This estimate may inaccurately reflect the exact amount of market risk during the periods of lower market liquidity when the period of closing (hedging) the Bank's positions may increase;
- ▶ Applying the 99% confidence level does not permit assessing the losses whose probability is below 1%; and
- ▶ VaR calculation is based on the Bank's positions exposed to market risk as of the end of the day and may not reflect the Bank's intraday risk.

Taking into account the disadvantages of the VaR method and for the purpose of obtaining more detailed information on market risk, the Bank uses, in addition to VaR calculation, market risk assessment based on scenario analysis and stress-testing.

Stress-testing is an imitation (scenario) modeling method designed to assess portfolio stability against irregular, sudden and highly adverse market fluctuations and obtain more detailed picture of the risk. This method is a supplement to the VaR models as it helps to obtain scenario assessment of losses which remain beyond VaR calculated based on the stated probability and historical data. By applying stress-testing, the Bank seeks to define a broad range of possible scenarios, assess portfolio sensitivity to sudden market fluctuations and determine control environment which enables total, transparent and timely control over changes in market conditions.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events.

When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and monitoring and responding to potential risks the Bank is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Executive Board has set limits on positions by currency based on CBR regulations. Positions are monitored on a daily basis.

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)**Currency risk (continued)**

The Bank's exposure to currency risk on financial assets and liabilities is as follows:

	31 December 2015					
	RUB	USD	EUR	CHF	GBP	Total
Assets						
Cash and cash equivalents	3,677,005	735,849	135	252	29	4,413,270
Mandatory reserves with the Central Bank of the Russian Federation	113,016	-	-	-	-	113,016
Amounts due from clearing institutions	123,182	1,755,112				1,878,294
Loans to customers	600	1,784	-	-	-	2,384
Derivative financial instruments	585	-	-	-	-	585
Other assets	399,670	52,543	-	-	-	452,213
Total financial assets	4,314,058	2,545,288	135	252	29	6,859,762
Liabilities						
Amounts due to credit institutions	2,969	801,710	-	-	-	804,679
Amounts due to customers	107,102	1,770,477	-	-	-	1,877,579
Derivative financial instruments	694	-	-	-	-	694
Other liabilities	18,947	3,784	-	-	-	22,731
Total financial liabilities	129,712	2,575,971	-	-	-	2,705,683
Net position in derivative financial instruments	(3,243)	3,134				(109)
Net financial assets and liabilities	4,181,103	(27,549)	135	252	29	4,153,970

	31 December 2014					
	RUB	USD	EUR	CHF	GBP	Total
Assets						
Cash and cash equivalents	3,843,553	148,441	687	229	62	3,992,972
Mandatory reserves with the Central Bank of the Russian Federation	77,049	-	-	-	-	77,049
Amounts due from clearing institutions	79,109	225,108				304,217
Other assets	90,369	132,062	-	-	-	222,431
Total financial assets	4,090,080	505,611	687	229	62	4,596,669
Liabilities						
Amounts due to credit institutions	1,856	22,504	-	-	-	24,360
Amounts due to customers	436,085	253,985	-	-	-	690,070
Other liabilities	28,980	5,842	-	-	-	34,822
Total financial liabilities	466,921	282,331	-	-	-	749,252
Net financial assets and liabilities	3,623,159	223,280	687	229	62	3,847,417

(In RUB thousand, unless otherwise specified)

16. Risk management (continued)

Currency risk (continued)

The table shows the analysis which calculates the effect of a reasonably possible movement in a currency rate against the Russian ruble on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate 2015</i>	<i>Effect on pre- tax profit and equity 2015</i>	<i>Change in currency rate 2014</i>	<i>Effect on pre- tax profit and equity 2014</i>
Stronger USD	40.0%	(11,020)	28.74%	64,171
Weaker USD	(13.0%).	3,581	(28.74%).	(64,171)

Interest rate risk

The Bank takes on exposure in relation to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods which differ from those of term borrowings secured at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken and controls the compliance with the set limits on a daily basis. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions.

The results of calculating interest rate risk on debt securities by applying the VaR method as of 31 December 2015 are presented in the table below (including comparative information as of 31 December 2014).

<i>Type of risk</i>	<i>Minimum for 2015</i>	<i>Maximum for 2015</i>	<i>Average for 2015</i>	<i>As of 31 December 2015</i>	<i>Minimum for 2014</i>	<i>Maximum for 2014</i>	<i>Average for 2014</i>	<i>As of 31 December 2014</i>
Interest rate risk on debt securities	-	-	-	-	-	-	-	-

According to the Bank, market risks related to non-traded assets are minimal.

17. Fair value of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- ▶ Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In RUB thousand, unless otherwise specified)

17. Fair value of financial instruments (continued)

As of 31 December 2015 and 31 December 2014, the Bank had no financial instruments recorded at fair value requiring disclosure of analysis by level of the fair value hierarchy, other than derivative financial instruments.

	<i>Quotations in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	<i>Total</i>
Assets measured at fair value				
Operations with derivative financial instruments	-	585	-	585
Total assets measured at fair value	-	585	-	585
Liabilities measured at fair value				
Operations with derivative financial instruments	-	(694)	-	(694)
Total liabilities measured at fair value	-	(694)	-	(694)

Financial instruments carried at fair value

Trading securities, other assets, the movement in fair value of which is designated at fair value through profit or loss. All derivative financial instruments are carried at fair value as assets when their fair value is positive and as liabilities when their fair value is negative.

Cash and cash equivalents are carried at amortized cost, which approximates their current fair value.

Loans and receivables carried at amortized cost

Interest rates on loans issued shortly before the reporting date do not differ materially from interest rates applicable to new instruments with similar credit risk and maturity. If the Bank determines that interest rates on previously issued loans differ materially from those applicable to similar instruments at the reporting date, the Bank estimates the fair value of these loans. The estimate is based on the discounted cash flow method and uses interest rates applicable to new instruments with similar credit risk and maturity. The use of interest rates is subject to instrument currency and maturity and credit risk of the counterparty.

Liabilities carried at amortized cost

The estimated fair value of these liabilities is based on market prices, if available. The estimated fair value of fixed-rate and maturity financial instruments that do not have quoted market prices is based on expected cash flows discounted at interest rates for new instruments with similar credit risk and maturity.

As of 31 December 2015 and 2014, the Bank's financial assets and financial liabilities are liquid or have a short-term maturity (less than three months), which results in their fair value being approximately equal to their carrying amount recorded in the statement of financial position.

18. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(In RUB thousand, unless otherwise specified)

18. Related party transactions (continued)

Related parties may enter into transactions which unrelated parties might not. Terms, conditions and amounts of such transactions may differ from terms, conditions and amounts of transactions between unrelated parties.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	31 December 2015		31 December 2014	
	Parent			
	bank	Entities under common control	Parent bank	Entities under common control
Cash and cash equivalents as of 31 December	3,667,444	-	3,990,427	-
Contractual interest rate on cash and cash equivalents: (2015: 0.08%-14.0%; 2014: 0.08%-22%)				
Amounts due from credit institutions as of 1 January	-	-	-	-
Issued during the year	-	-	-	-
Repaid during the year	-	-	-	-
Amounts due from credit institutions as of 31 December	-	-	-	-
Loans to customers as of 1 January	-	-	-	450,080
Issued during the year	-	-	-	-
Repaid during the year	-	-	-	(450,080)
Loans to customers as of 31 December (2014: 6.5%)	-	-	-	-
Other assets as of 31 December	4,487	322,978	12,936	97,887
Amounts due to credit institutions as of 1 January	22,503	-	1,309,168	-
Received during the year	71,659,224	-	40,167,979	-
Repaid during the year	(70,880,017)	-	(41,454,644)	-
Amounts due to credit institutions as of 31 December	801,710	-	22,503	-
Contractual interest rate on amounts due to credit institutions: (2015: 0.19%-0.5%; 2014: 0.247%-0.3%)				
Amounts due to customers as of 31 December	75,069	1,801,000	5,712	683,193
Contractual interest rate on amounts due to customers: (2015: 0.0%; 2014: 0.0%)				
Credit institution's irrevocable liabilities as of 31 December				

(In RUB thousand, unless otherwise specified)

18. Related party transactions (continued)

Income and expenses arising from related party transactions are as follows:

	<i>For the year ended 31 December</i>			
	<i>2015</i>		<i>2014</i>	
	<i>Parent bank</i>	<i>Entities under common control</i>	<i>Parent bank</i>	<i>Entities under common control</i>
Interest income on amounts due from credit institutions and due to customers	418,271	0	267,761	730
Interest expense on amounts due to credit institutions	(870)	-	(482)	-
Fee and commission income	58	223,290	-	109,486
Net gains/(losses) from dealing in foreign currencies:	58,382	8,836	(210,660)	429,278
Income from consulting services and other income	660,278	1,578,062	290,201	440,284
Rent and maintenance expenses	-	-	-	(125,323)
Other expenses	(620)	-	(620)	-

Since 1 November 2009 the rate under a sublease agreement with a related party was increased to USD 1,000 per 1 sq. m. In December 2014, a sublease agreement was renewed between the Bank and its unrelated party.

Compensation to the key management personnel comprised the following:

	<i>2015</i>	<i>2014</i>
Salaries	147,212	117,816
Bonuses	238,698	171,785
Social security contributions	37,265	11,838
Other social charges	1,302	471
Compensation to the key management personnel	424,477	301,910

This amount of compensation represents short-term compensation only.

Liabilities in bonus settlements with the key management personnel amounted to RUB 36,520 thousand as of 31 December 2015 (2014: RUB 17,748 thousand).

In 2015, the Bank did not receive pecuniary aid from the parent bank (2014: RUB 337,508 thousand).

19. Capital adequacy

The objectives of the Bank's capital management are to ensure: (i) that the Bank complies with regulatory capital requirements established by the CBR and (ii) that the Bank is able to continue as a going concern. The compliance with the capital adequacy ratio established by the CBR is controlled through monthly reports with respective calculations submitted to the CBR.

Last year the Bank fully complied with all external capital requirements.

The key goal of the Bank in capital management is to ensure that the Bank complies with the external capital requirements and maintains a high credit rating and capital adequacy ratios required for implementation of its activities and maximization of shareholder value.

According to effective capital requirements established by the CBR, banks should maintain a ratio of capital to risk-weighted assets ('capital adequacy ratio') at a level exceeding the mandatory minimum ratio. The CBR requires that banks should maintain an equity (capital) adequacy ratio of at least 10%.

(In RUB thousand, unless otherwise specified)

19. Capital adequacy (continued)

As of 31 December 2015, the Bank's regulatory capital adequacy ratio was 109.0% (2014: 117.7%). Regulatory capital is shown per the Bank's reports prepared under RAL and as of 31 December 2015 amounted to RUB 4,159,159 (2014: 3,886,965 thousand).

	2015	2014
Base capital adequacy ratio (N.1.1) (threshold $\geq 5\%$)	105.6%	117.0%
Core capital adequacy ratio (H.1.2) (threshold $\geq 6\%$)	105.6%	117.0%
Capital adequacy ratio (N.1.0) (threshold $\geq 10\%$)	109.0%	117.0%

20. Events after the reporting period

In February and March 2016, the Bank paid year-end bonuses for 2015 to its employees in the amount of RUB 593,525 thousand (including personal income taxes and excluding payroll taxes). Year-end bonuses for 2014 were paid in the amount of RUB 589,457 thousand (including personal income taxes and excluding payroll taxes).

After 31 December 2015 financial markets remain unstable. The country's economy is highly sensitive to changes in prices for oil and gas. The official RUB exchange rate set by the CBR ranged from RUB 72.8827 to 1 USD to RUB 66.2198 to 1 USD. The CBR key interest rate decreased from 17% to 11% p.a. Management monitors current developments and takes appropriate measures.